Date Filed: October 19, 2026

Witness: Douglas P. Horton
Request from: Office of Consumer Counsel

Question:

(SCRAF Mechanism) Please quantify the savings and benefits, if any, in carrying charges that the Company expects to result from implementation of the proposed SCRAF as compared with recovery under the current storm cost recovery framework. Provide all assumptions, calculations, and workpapers supporting the response.

Response:

The Company assumes that the reference to "the current storm cost recovery framework" is a reference to the following framework:

1. The Company is authorized to defer incremental expenses incurred to restore power following a storm event, where those incremental expenses exceed $4 million, or where the Company has notified PURA of its intent to pre-stage a potential event and those incremental expenses do not exceed $4 million.

2. The cost of "minor" events, or events where less than $4 million in incremental cost is incurred to restore power to customers, is recovered through base rates, with a representative amount included in rates in a rate proceeding based on historical experience.

3. DISPUTED. No carrying charges are allowed on deferrals to the Catastrophic Storm or Pre-Staging Event Reserves unless and until a prudence review is completed – and then only on the deferred balance determined to be prudently incurred.

4. DISPUTED. The prudence review can only occur in the context of a rate proceeding, unless required by approved settlement provision or as a matter of PURA discretion.

5. DISPUTED. Carrying charges commencing on the date of the prudence review are recoverable in a rate proceeding only prospectively, as applied to the unamortized balanced over the amortization period, collected through distribution rates (but not through rate base).

6. Actual recovery of storm costs or associated carrying costs cannot occur outside of a distribution rate proceeding.

The Company's proposal for establishment of a revised storm mechanism in this case seeks to resolve these disputes and to create a framework that is fair, efficient, lawful, provides timely and

adequate recovery for prudently incurred costs and mitigates cost impacts for customers to the maximum extent feasible for administrative proceedings.

As the Company discussed in detail in response to OCC-522[i], the reduction of carrying costs is a primary benefit of a systematic approach. Accordingly, the Company's framework employs a systematic mechanism that would operate outside of base rates with an annual funding contribution collected through distribution rates to mitigate carrying costs for catastrophic storms and pre-staging events. In this framework, the reduction of carrying costs is an important tool to mitigate costs for customers, although the Company does not agree that PURA has lawful authority to simply bar the application of carrying costs unless or until a prudence review is completed. The Company does agree that carrying costs may only be recovered on costs that are ultimately determined to be prudently incurred and this would require the refund of any carrying costs accrued on deferred costs from the date of cost incurrence (if collected), in the event that costs are declared to be imprudent.

In this context, a critical feature of a new storm-cost recovery mechanism is for it to operate on a shorter-term cycle, so that prudence reviews are systematically performed; deferred costs are not allowed to accumulate for a multi-year period; and recovery is timely and efficient, so that carrying costs can be minimized and the Company is not impaired by the fact that customer obligations are allowed to remain outstanding for long periods. Also, with a more timely, systematic format for storm-cost review and recovery, the carrying cost rate can approximate a debt rate instead of the weighted average cost of capital ("WACC"), which is necessary, appropriate and lawful where the periods that deferred amounts must be carried are relatively longer.

To illustrate the savings and benefits that would result from the Company's proposed framework, as compared to the current framework, lawfully applied, the Company is building a model to compare a SCRAF mechanism (operating annually outside of base rates) to a framework that relies on rate-case intervals. Carrying costs will be greater as the timeframe for deferral and recovery is extended. However, the Company's model will demonstrate the results that would be achieved with more systematic recovery and will be provided as a supplement to this response.

Prior Referenced Response:

[i] OCC-522 Question:

Leadership Panel Exhibit CLP-ELP-1 – Storm Cost Recovery
(Carrying charges applied to SCRAF) In its proposal, the Company notes, "should PURA implement the SCRAF, which provides for more timely review and recovery of storm and pre-staging costs, the Company accepts the Prime rate from the date of cost incurrence, applied to the net balance of the storm fund and pre-staging reserve fund 6 for storms occurring after March, 2025." (p.143) Did the company consider or analyze setting carrying charges on costs recovered through SCRAF to be equal to the commercial paper index or the utility's actual cost of short-term debt, rather than the prime rate?

a. If yes, provide the analysis conducted and the rationale for proposing the use of the Prime rate instead.

b. If not, explain why the Company did not consider proposing that the carrying charges on SCRAF recovery to be set at either the commercial paper index or actual cost of short-term debt.

OCC-522 Response:

a. and b.

Carrying costs are the mechanism by which the Company recovers its cost of money. Thus, carrying costs must be tied to the actual cost that the Company is incurring to carry the storm deferral. When the storm deferral is relatively larger and carried for a relatively extended time period, then the Company's weighted average cost of capital ("WACC") is its actual carrying cost. If PURA establishes a ratemaking mechanism that provides more systematic reviews and more timely recovery, then the cost of money may be susceptible to approximation with lower cost sources of funds.

The relationship between time and quantity and the cost of capital is clearly demonstrated through a utility's cost of service whereby a utility's rate base (comprised mainly of the Company's plant which is paid back by customers over many years) receives a return at the Company's authorized WACC. Applying the Company's WACC to long-term assets aligns the carrying charge calculation with the manner in which comparable long-term assets are reflected for ratemaking purposes.

Similarly, the WACC is the appropriate rate for calculating carrying charges on long-term funded regulatory assets because it reflects the Company's actual cost of funding those customer "debts," including storm restoration costs, over an extended period of time. Financing obligations – certainly obligations of this magnitude – cannot be supported exclusively through debt financing, whether short-term or long-term. Instead, the Company must balance its capital requirements through a reasonable mix of both debt and equity to ensure financial stability and continued access to reasonably priced capital.

With respect to the appropriate carrying charge rate to utilize for the Storm Cost Recovery Adjustment Factor ("SCRAF"), the Company provided a thorough response to this question in response to LFE-031, in Docket No. 25-12-13. The Company is providing that response as OCC-522, Attachment 1. The analysis shows that: (1) necessary uses of cash routinely exceed available sources of cash, creating a persistent funding gap; (2) commercial paper is a tool to maintain liquidity, not to finance investments or deferred expenses; and (3) short-term borrowing capacity is limited, and the Company cannot plan to operate at or near its short-term debt capacity without putting its ability to operate the system in severe jeopardy.

Given all of the considerations elucidated by Attachment 1, the Company recognizes that the appropriate treatment of carrying charges may vary based on the regulatory framework established within each jurisdiction. Different regulatory constructs reflect differing policy objectives and mechanisms designed to balance the Company's financing needs with customer impacts. In establishing a going-forward framework for storm cost recovery, the Company agrees that it would be within PURA's discretion to strike a balance between the Company's costs of financing storm costs while ensuring that the Company is not 'profiting' on a force majeure event like a storm. This is the Company's experience in Massachusetts, as well, where the MDPU has authorized a carrying charge rate that is different from and generally less than the Company's WACC, but that still recognizes that the Company is using its longer-term capital resources to finance storm costs (not its shorter term commercial paper source of liquidity). Thus, the Company stated that "should PURA implement the SCRAF, which provides for more timely review and recovery of storm and pre-staging costs, the Company accepts the Prime rate from

the date of cost incurrence, applied to the net balance of the storm fund and pre-staging reserve fund for storms occurring after March, 2025."